



“Sadbhav Engineering Limited and Sadbhav  
Infrastructure Project Limited Q2 FY20 Earnings  
Conference Call”

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**MODERATOR:** **MR. AMBER SINGHANIA – ASIAN MARKET, SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day. And welcome to the Sadbhav Engineering Limited and Sadbhav Infrastructure Project Limited Q2 FY20 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities Limited. Thank you and over to you, sir.

**Amber Singhania:** Thank you, Steven. Good morning, everyone. On behalf of Asian Market Securities, I welcome you all to Q2 FY20 Earnings Conference Call for Sadbhav Engineering Limited and Sadbhav Infrastructure Projects Limited.

We have with us today. Mr. Nitin Patel – Executive Director and CFO for Sadbhav Engineering and Mr. Varun Mehta – CFO, Sadbhav Infrastructure Project Limited representing the company. I know request Mr. Patel to take us through the quarterly results, and then the outlook for the company and then we shall begin with the Q&A session. Over to you, Nitin.

**Nitin Patel:** Good morning, everyone. On behalf of Sadbhav Group, I warmly welcome all the participants. And thank you for taking your valuable time for earnings call for the quarter ended 30th September 2019. Now I will first start with a Sadbhav Engineering Limited numbers and updates on merger of SEL and SIPL. Post that, Varun Mehta will take you through the SIPL numbers and update the details of the stake sale also along with the numbers.

Now, the income from operations for the quarter stood at Rs. 565 crores, as against Rs. 690 crores last year. EBITDA for the quarter stood at Rs. 70 crores as against Rs. 83 crores last year. Profit before tax for the quarter stood at Rs. 27.56 crores as against Rs. 38.28 crores last year. And profit after tax stood at Rs. 25.85 crores as against Rs. 38.29 crores of the last year.

The EBITDA margin for the quarter stood at 12.31% as against 12.07% in the same period of the previous year. During the Q2 of FY20, 71% of the total revenue is contributed by HAM projects in transport segment, while EPC projects in transport segment contributed 20%, and balance by irrigation and mining projects.

In terms of the debt numbers, as on 30th September 2019, it stood at Rs. 1,550 crores. The order book as on 30th September 2019, stands at Rs. 9,521 crores, which translates to an order book to sales ratio of 2.7x of FY19 revenue. Here, I would like to break down the transport order book into phases.

Three orders worth Rs. 2,350 crores where the appointed dates were not available during Q2 that is Kim - Ankleshwar, Tumkur - Shivamogga and Gadag - Honnali. Out of these, we have now received appointed date for Kim - Ankleshwar project as 1st of November. And appointed date

for Gadag is expected in this quarter itself. While the appointed date for Tumkur - Shivamogga is expected to be by the end of the quarter or the beginning of the Q4.

Then the two projects worth Rs. 2,100 crores, that is a Lucknow Ring Road and Mumbai - Nagpur where we already started the construction before monsoon, actually. And during the monsoon period, the major construction activity could not be conducted in these two projects mainly because both are the greenfield projects. And as I mentioned, the value of these two projects is Rs. 2,100 crores. So, now basically as the monsoon is over, so we are expecting basically ramp up from of the top-line from these two projects also between Q3 and Q4.

So, hence if you see, considering all the facts basically, the balance transport segment order of Rs. 2,600 crores, against which we have done the execution of Rs. 516 crores during the Q2. Now obviously I have mentioned that the diesel Lucknow Ring Road and this Mumbai - Nagpur, these are going to basically do the further uptick in the Q3 and Q4.

Now on the bidding activity, the bidding from NHAI hasn't picked up much actually, even during Q3 also. As per the NHAI website, till date NHAI has called bids for 37 EPC projects worth Rs. 25,573 crores, for which bid submission date is before 31st of December. NHAI has also called bids 37 HAM projects worth Rs. 38,742 crores, for which the bids are also to be submitted before 31st of December.

Now on the execution front, the top five projects for execution during Q2 of FY20 have been disclosed the media really.

Now coming to the merger, the Board of Directors of both the companies have approved the valuation report, as presented by the valuers. And swap ratio of 3 SIPL shares against 1 SEL shares have been accepted. We are right now in the process of filing the scheme of arrangement which stock exchanges to obtain their approval. Post the same, we shall file the scheme with NCLT. Once the NCLT accepts the case, then we shall go for approval from all the stakeholders, that is shareholders of both the companies, lenders, authorities and creditors etc. So, this is a broadly in terms of the merger specific the process.

Now, with this I will now hand over the call to Mr. Varun Mehta to discuss the financial number and operational performance of SIPL. Again, thank you very much to all the participants for listening to me.

**Varun Mehta:**

Thank you Nitinbhai for giving useful updates on the company and good morning to all the participants. Once again, we welcome to the earnings call of Q2 of SIPL and SEL together.

I am sure you must have seen the financial results and the media release shared with the results, and also the SPV wise revenue data which was shared on 25th of October. Now, let me start with the financial numbers first.

The breakup between the operational SPV, under construction SPVs and SIPL standalone has been provided in the media release. Total cash income for all the operational SPVs during Q2 FY20 have been flat at around Rs. 287.1 crores as against Rs. 289.5 crores during Q2 FY19. This number includes the Nagpur Seoni annuity receipts also.

Cash EBITDA from the operational SPVs during Q2 FY20 stood at Rs. 234.9 crores as against Rs. 250.9 crores during Q2 FY19. EBITDA margin in Q2 FY20 stood at 81.82% versus 86.69% during Q2 of FY19. Cash profit in the operational SPVs during Q2 FY20 stood at Rs. 65.19 crores as against Rs. 76.81 crores during Q2 FY19.

Now coming to standalone business, the total cash income from the standalone business during Q2 FY20 stood at Rs. 64 crores as against Rs. 94.4 crores last year. Cash EBITDA during Q2 FY20 stood at Rs. 39.1 crores as against Rs. 77.6 crores in last year. EBITDA margin in Q2 FY20 stood at 61.07% versus 82.18% during Q2 FY19. Revenue and margin in the standalone business has reduced in this quarter due to lower HAM projects related income because most of the income in the past HAM projects have been booked and the appointed date for the new projects is yet to come. The cash profit in the standalone business stood at around Rs. 8.4 crores.

Our combined cash profit for the entire business stood at around Rs. 79.7 crores during Q2 FY20 versus Rs. 104.1 crores during Q2 FY19. SIPL has a current outstanding order book of around Rs. 426 crores towards the maintenance of 10 HAM projects which is to be executed over a period of next around 20 to 21 months.

The consolidated debt of operational SPVs as on 30th of September 2019, stood at Rs. 6,775 crores, the consol debt for the under construction SPV stood at around Rs. 1,815 crores and the SIPL standalone debt is around Rs. 1,600 crores. In HAM projects, we have infused equity of Rs. 593 crores up to 30th of September 2019.

So, this is in relation to the financial numbers. And now coming to the status of the stake sale deal. So, as you are aware that we have signed definitive agreements for the sale of the nine SPVs to Indinfravit Trust on 1st of July 2019. So right now the status is as follows.

So, we are in the process of completing the condition precedents for getting the funds. So the first major condition precedent was the approval from the authority. We have got the approval from the authority in eight of the projects, the 9<sup>th</sup> project which is Ahmedabad Ring Road, here we are yet to receive the authority approval, but the approval is in advanced stage from the client for ARRIL and we expect this also to be received soon. But the proceeds of the eight projects won't be impacted because of this. So we will get the proceeds of the eight projects, even if the Ahmedabad Ring Road gets closed basically in the next 10 to 15 days post that.

As far as the lenders' approval is concerned, so we have got the approval from SIPL lenders for the stake sale. And as far as the SPVs are concerned, so we have got approvals from 81% of the SPV lenders. And so for the balance lenders the committees are lined up in this week and the

next week, so we are expecting that all those SPVs should be closing the next probably 10 to 12 days. And post that, there is a process of the Board of Trust and the unit holders meeting which will be done at the Trust level. And so that is the process basically till the receipt of money.

And so with this, basically this is the status of the deal. So we can discuss further questions in the Q&A round. And now with this we complete our opening remarks. And we once again thank you very much for all to listening to the opening remarks. Thank you.

**Moderator:** Should be open the floor for Q&A?

**Nitin Patel:** Yes.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Congratulations on receiving clearances from NHAI for eight projects. Sir, my question first is, what is the timeline you are looking for the cash flow to come in? And is any change in valuation parameter of the eight assets, in case only the eight assets goes into InvIT, what could be the EV of the deal?

**Varun Mehta:** So, if you see the equity value of the nine assets, so the equity value is Rs. 2,546 crores and valuation for the last asset, which Ahmedabad Ring Road, so that valuation is around Rs. 270 crores is the valuation for Ahmedabad Ring Road. So, basically we will receive the proceeds of eight assets which is Rs. 2,546 crores minus Rs. 270 crores put together.

**Mohit Kumar:** Okay. Rs. 246 crores less, right?

**Varun Mehta:** Yes.

**Mohit Kumar:** Secondly, the execution has been pretty bad compared to the last year same quarter. Is there any particular one-off? And when we expect Gadag - Honnali and Tumkur - Shivamogga to come to us? And what is the status of 3G-3H land status for both the projects?

**Nitin Patel:** See, with regards to Gadag - Honnali we have completed the 80% of basically minimum requirement of the land, and we are expecting that appointed date for Gadag - Honnali should be there by the end of this month or latest by beginning of December. So, we are now in the process to start basically the execution in that project. And with regard to Tumkur - Shivamogga, still the 57% of the land has been acquired so far. For balance of the land, the identification, the 3D, even the 3G has already been completed but the payment released to the landowners is under process.

So, considering the current, basically, environment and requirement of the lenders also, it has been specifically intimidated by us to NHAI that once you complete the complete handing over

of the 80% of the land then only we will be able to take the appointed date. So that is a current status for the Tumkur - Shivamogga. So, that's why we are expecting that it may start basically in the beginning of the Q4 so far as to Tumkur - Shivamogga is concerned.

But with regard to basically the top-line as I mentioned, the two major projects that is Mumbai - Nagpur and the Lucknow Ring Road, basically both are the greenfield projects. So, because of the continuous and heavy and extended monsoon, basically entry into the some of the parts and because of the large number of structures are already there. So it could not be made that easy during these periods. So that's why the top-line from that two projects is reasonably less. But now in the Q3 and Q4 we will see basically decent growth should come physically from these two projects.

**Mohit Kumar:** This will maintain our top-line guidance, right?

**Nitin Patel:** Currently, obviously we are waiting for the appointed date for another these two projects also, but largely we should be basically able to maintain that actually.

**Moderator:** Thank you. Next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** Sir, when you mention that we will be able to maintain our guidance, so the earlier guidance was that we will do the revenue that will be a flat revenue on a Y-on-Y basis. So, Rs. 3,500 crores to Rs. \$3,600 crores of revenue is what we should be able to do, am I right in getting that?

**Nitin Patel:** Currently we are okay with the same, because even since Gadag - Honnali the picture is largely clear, only now the Tumkur - Shivamogga obviously that will basically take a little more time as compared to what we were thinking actually. But largely we are of the view that a lot of the process, even the ground activity on basically that project has already been done by us actually. So we can basically take up the work on a fast pace. So currently we are going there with the same. If any major deviation is happening in that part, then only to that extent, rest other things we will be able to maintain that.

**Vibhor Singhal:** Sure, sir. Very glad to hear that. Also, basically, if you look at the order inflow, as you mentioned, has been very weak from NHAI till now, and you mentioned that there are 37 projects HAM, and 37 EPC projects which are in the pipeline. Do you see these projects being awarded by the end of this financial year by March, and hence the NHAI activity to maybe pick up from December or maybe next quarter itself? Or do you think a large part of the NHAI activity might actually flow down into FY21 only?

**Nitin Patel:** Actually, currently the NHAI is also maintaining their stand very clearly that they will be able to achieve the target of bidding for the year what they have mentioned. And I think that we are also getting the reports, the various players, even various analysts from the market they also keep on meeting with some of the authorities of NHAI, and they are also getting the same feedback.

But currently, even if you see the historical position also, the NHAI is largely in a position to basically give them more orders by the end of Q3 and Q4 itself. So, I think this year also the same kind of process will continue.

**Vibhor Singhal:**

Sure, sir. Sir, one last question on the order book side. Now that we have a decent amount of orders in the road segment, so basically two things; one is, if NHAI intends to go for more BOT projects, will we be open to bidding for BOT projects? Or are we going to restrict ourselves only to EPC and HAM?

And secondly, apart from road projects, are we looking to get into, I mean, in between we had bid for Mumbai Metro project. So, any other metro projects or any other segmental projects that we are bidding for at this point of time?

**Nitin Patel:**

First of all, BOT, as of now we are not there in the BOT race actually. And I think that still there is not any clarity pertaining to the consistent agreement as came from the authority side. So, that has been as of now for this year itself it has been not in basically our radar, number one.

Number two, with regard to the HAM and EPC, so obviously EPC will be there more priority. Obviously, once we will complete this entire deal and everything has been completed, then only we will basically try to see that weather how the opportunity in terms of the HAM works, number two.

In terms of the bidding into the metro, basically what we are in a process that the metro as well as the some of the irrigation kind of projects, river connectivity, because that authority is in the process and we are expecting in this year itself there may be at least two to three bids basically start floating. And then after every year basically this particular area may basically open up in a bigger space actually, that is what we are seeing from that particularly river -inking authority as of now. So, this may be basically other area where we will continue to put the bid.

**Vibhor Singhal:**

So, nothing in metros as of now?

**Nitin Patel:**

We are looking at some of the bids, obviously. But considering the area and where we are having the comfort level in terms of their putting the bid, we will continue to put the bid in the metros also.

**Moderator:**

Thank you. The next question is from the line of Koundinya N from JM Financial. Please go ahead.

**Koundinya N:**

Sir, just want to understand what is happening on the mining order? The order book seems to be moving slow, can you help us understand?

**Nitin Patel:**

See, obviously in terms of the mining, particularly in the Dhanbad projects basically, no much progress has happened in the quarter, because of the certain matters we need to close with the

client. So, once it will be there then only will take up. Rest other things has been started, because these all are the new projects. So, all the three projects large and mobilization is over. The balance mobilization in one of the projects is under process. So, we will see in Q3 and Q4 also there will be reasonable jump into the mining activity also, as compared to what was there in the Q1 and Q2.

**Koundinya N:** Sir, you did around Rs. 83 crores of mining order in the first half. So what is it that you are targeting in the second half for mining orders, if I may ask?

**Nitin Patel:** See, the execution in terms of second we should see between around Rs. 150 crores to Rs. 170 crores.

**Koundinya N:** Understood. Sir, in opening remarks you spoke something about NCLT, sorry I missed that part, can you just help us understand that?

**Varun Mehta:** Yes, this is in relation to the process of the merger, because the merger process is an NCLT driven process. So, in that we have to submit the scheme of arrangement to NCLT. And for that then there is a hearing and those stuff will be like taken care by the NCLT process. And so because of that this process is required.

**Koundinya N:** Okay. Sir, lastly if I may ask one last question, you earlier gave an order inflow guidance of Rs. 3240 crores, do you retain that guidance or any changes on that?

**Nitin Patel:** See, currently, obviously because a large number of bids have been ramped up, if you see the number of bids are significant, more than 30 bids in each of the HAM and basically EPC also. So, considering the current bidding competition and all put together we are of the view we should be able to basically get it actually. So, let us see that how the bids are coming in the month of December, and again into the month of quarter four itself. But we largely do away with that.

**Moderator:** Thank you. The next question is from the line of Jiten Rushi from BOB Capital Markets. Please go ahead.

**Jiten Rushi:** Sir, my question is related to the revenue expectation on the Mumbai - Nagpur and Lucknow Ring Road. What kind of quarterly run rate we can expect going forward.

**Nitin Patel:** See, if you see that it should be within the range of Rs. 300 crores to Rs. 350 crores. In quarter three, basically in October also there was a little bit extended monsoon. So, in a quarter three we should be closer to Rs. 300 crores. But in quarter four it should basically cross Rs. 350 plus actually.

**Jiten Rushi:** And sir, can you also guide on the irrigation project? Because irrigation projects are also not moving, like we were expecting some positive movement, but there also sales stuck where it is,

hardly any meaning. So, what is the status on the new project which we had won Chitradurga Branch and the other older projects?

**Nitin Patel:** See, the older projects are mainly because of the land required for the last mile completing the irrigation network. So, that land has not yet been acquired by the client. So, we have also in couple of projects we have already issued the final notice to the client also that by this time if it is not available then we should be allowed to go away. Otherwise they should take up their end, because already significant time they have waited for the. And once if they are giving then we will be able to complete or otherwise basically we will come out of the same. And the other one which is under construction, it is a very small project. So, as per the target the project is execute under execution, so that is why the irrigation activity is little lesser actually.

**Jiten Rushi:** Chitradurga project you are talking about?

**Nitin Patel:** Yes.

**Jiten Rushi:** Sir, what is the order backlog ex of Chitradurga older projects in irrigation?

**Nitin Patel:** See, often it is not available with me, but I will just come back to you.

**Jiten Rushi:** And which projects we are expecting to complete this year in terms of HAM?

**Nitin Patel:** In the HAM, actually the four project we are in the process, so first is we already applied for COD for Rampur - Kathgodam and apart from that the BRT Tiger Reserve Sanctuary to Bangalore, Udaipur Bypass, and Bhavnagar - Talaja, these four projects we are expecting to complete before the end of this year actually.

**Jiten Rushi:** Sir, Rampur which package you applied for the COD?

**Nitin Patel:** Package one.

**Jiten Rushi:** And just last question on the tax rate, what could also be sorts of, because this quarter also we saw some effective and tax rate to be lower and we have not shifted to the new tax regime. So, can you please highlight on the shift and also the overall effective tax rate this year next year?

**Varun Mehta:** See, in this particular year we are the max rate available, and so because of that, in this year we are not opting for the lower rate. And from next year we would shift to the lower rate as far as the income tax rate is concerned.

**Jiten Rushi:** Sir, what is the MAT credit available as on date?

**Varun Mehta:** Yes, so right now, at the end of March 2019 for the year of FY20 it was somewhere around Rs. 95 crores, Rs. 96 crores.

- Jiten Rushi:** So this year the effective tax rate could be anything between 25% approximate or could be lower also?
- Varun Mehta:** It could be lower also, because the tax what we are supposed to pay is actually only the MAT, but obviously the P&L will see the impact of the full tax rate.
- Jiten Rushi:** So, effective would be what, 15% - 20% broadly?
- Nitin Patel:** Jiten, the outstanding basically order booked in the Karnataka integration is around Rs. 275 crores.
- Jiten Rushi:** And just last question to Varun, what is order backlog of the major maintenance, excluding the HAM?
- Varun Mehta:** So right now we are doing the major maintenance for Bijapur-Hungud and HYDPL. So in that both put together the outstanding value is around Rs. 80 crores.
- Jiten Rushi:** Okay. So 426 plus 80 crores, right?
- Varun Mehta:** Yes.
- Moderator:** Thank you. The next question is from the line of Mayank Goel from SBICAPs Securities. Please go ahead.
- Mayank Goel:** Just two questions. Sir, you said that we will be getting the proceeds of the eight assets irrespective of the approval of the ninth one. So, what will be the cash position for these eight assets? Will it be proportionate? I think the equity validation for these eight assets is Rs. 2,276 crores. So, what portion will be cash?
- Nitin Patel:** See, actually, if we see the total value, the Ahmedabad Ring Road the equity value is somewhere around Rs. 230 crores odd actually, out of the total consideration. So, rest is basically value of eight of the SPVs. And out of the eight, basically it is not proportionately, this around Rs. 640 crores worth of the units we will in any case we have to basically the allotment will be there. And the rates will be the cash amount.
- Mayank Goel:** Okay. And sir you mentioned that there are various procedural requirements for getting the proceeds, like Board of Trust and unit holders meeting etc. So, when you say that you will get proceeds of these eight assets, even if the ninth one is taking time for its approval, you mean to say that these processes will be done for the eight assets and you will get the proceeds irrespective of the fact whether the ninth project is in its own progress awaiting approval?
- Nitin Patel:** Yes. See, actually there is no linkage of these nine along with the eight actually, because all our other separate SPVs. So, the Trust itself they have already now started the process of conducting

the board meeting. So, I think they will very sooner conclude, because now as Varun has mentioned, almost 81% of the lenders approval is in place and the eight SPVs authority approval is there actually. So, largely we are to do away with almost majority of the CPs, now we are just nearby closer to basically complete the closing of the transaction. So, first eight will be completed, and by the time if we are getting Ahmedabad Ring Road approval also, so that will also be included. Because the trust they are going to call the funds for all the nine SPVs from the unit holders.

**Mayank Goel:**

Okay. Sir, lastly, are we actually aggressively evaluating new projects in terms of order inflows or are we waiting for the deal to consummate? Because we have seen recent biddings of about Rs. 11,000 crores of UP expressways, but we have not submitted our bid. So, is it that we are waiting for the deal or we will take the NHAI project, so any color on that?

**Nitin Patel:**

See, obviously some of the NHAI projects, because out of the current list we already identified the projects. And obviously, because the other processes were also going on, because we are willing to conduct the entire maintenance activity of these nine SPV also and also the further transaction with regard to the Trust requirement that is also going on. So, we were engaged into the same actually. So, now that part is over, so now onwards we will be there actually in the bidding also. And largely as we mentioned that we are now very closer to this also, so now the focus will definitely start coming on completely the new bids actually.

**Mayank Goel:**

Thank you. The next question is from designer, Priyanka Gupta from Gupta capital. Please go ahead.

**Priyanka Gupta:**

Sir, this question is regarding the concessional tax rate which we have opted for the SPV. What are we doing for the API in 35AD benefit?

**Varun Mehta:**

Yes, see as far as SPVs are concerned, since the API benefits are available, so that will continue, so there is no change basically in that tax rate because of the new change which was proposed by the government. So there is no change in that. And as far as the 35AD is concerned, so for the projects where we have got the appointed date after 1st of April 2017, in that we have opted for 35AD, and so in that basically we will continue to follow 35AD.

**Moderator:**

Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

**Ashish Shah:**

Sir just wanted to check what is the status of the appointed date for the Bhimasar Bhuj project?

**Nitin Patel:**

See, actually that project because land has not been granted given, so we have already returned to NHAI for the termination. So, the matter is basically completely on the final stage of approval from authority. So, that's why we have not basically considered even this order book also. So, that's why we are not considering that project as of now.

- Ashish Shah:** Okay. So, this project is not part of the order book at present, is it?
- Nitin Patel:** It is not part of the same, correct.
- Ashish Shah:** Sure. Sir, also with regard to the Ahmedabad Ring Road project, so now as you said the deal will go on irrespective whether the NOC will come on time or not. Now just wanted to check what exactly is holding up the process there?
- Varun Mehta:** See, the process is actually, the way the AUDA is asking us that since this is the only project of AUDA, so far that they want a recommendation from the Attorney General, which is what basically we are in the process of getting that opinion from the Attorney General. And then basically AUDA will take up the matter.
- Ashish Shah:** Okay. So it's probably going to take some time before they get the opinions and all that?
- Varun Mehta:** I mean, I think right now since we have got the approval from NHAI and also government of Maharashtra and the Government of Karnataka, so there is a precedence for them also to rely on this approval. But I believe it will be an independent decision which will be taken by them. But we don't think so that it will be stuck anywhere, it is just a matter of process which is to be completed. Because then this is only project, so they don't have a formularized channel what we have at the NHAI level. And so because of that the time is a bit longer as compared to NHAI.
- Moderator:** Thank you. Next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.
- Ritesh Gandhi:** Can you give us an explicit timeline with regards to the infra and engineering transaction? And also, the implications of carried forward losses that we would have in infra, would that be applicable to the combined entity?
- Varun Mehta:** See, as far as the merger process is concerned, as we discussed in the opening remark, it's a long drawn process. So there the approval from Stock Exchange, NCLT, shareholders' approval, all the other stakeholders' approval is to be taken. So, typically this process takes somewhere around eight to nine months to get complete. So, that is a timeline what we are looking for the merger to complete. And as far as the losses are concerned, so I think if you see at the SEL standalone level we don't have any carry forward losses in that. So, the losses whatever we have are at the SPV level, so that anyways nine SPVs are to be transferred to the trust, so that will change. And the other SPVs what we have, so the losses and that that will continue. So as far as the SPVs are concerned, the losses, there is no impact on the merger on the carry forward losses for that.
- Ritesh Gandhi:** And the other question is that, I think for the last few quarters I think we have been slightly below our guidance and our estimates. And obviously it is because of things which are out of our own control. Do we have a higher degree of confidence of achieving our FY20 estimates

like now to where we are? Or is there potential of again a revision of that based on external factors?

**Nitin Patel:** See, obviously it is not only at Sadbhav level, obviously the number of HAM projects those who have taken appointed date to a large extent has got delayed basically. So, that is one of the reasons, because last one and a half to two years there are the projects where they appointed date has been delayed by more than a year actually by the authority. So, that is one significant. Second thing, obviously, under the current environment, even lender perspective, basically they are also very clear that once everything is clear then only they are allowing to take the appointed date. So, considering all the facts, we have also taken a very clear view in the company side that if we go into the hasty, so definitely going forward we may end up into the further problems actually. To avoid that, that's why we are taking this kind of step actually.

And largely, as you mentioned, obviously some of the appointed date has been shifted, but now the projects are already on the track and execution is going on. So, largely we are of the view we will be able to maintain this current year's number, except if anything substantially goes delay in terms of the Tumkur - Shivamogga. Gadag - Honnalione, as I have mentioned, we are completely through, so we do not see any kind of challenge there actually. So that's why we are confident that we will be able to maintain that.

**Ritesh Gandhi:** Got it. And last question is that, given effectively speaking the transaction we have undergone in SIPL, we would be having after that an extremely strong balance sheet. So, would we expect our positioning in terms of raising credit and in turn therefore to be actually be competitive in new HAM orders to be actually be better than some of our peers out there who still have high degrees of leverage?

**Varun Mehta:** See, I think definitely we position changes a lot after the stake sale money comes in. Because if you see, what we also planned is to reduce the debt at the standalone level to a large extent. And so, I think definitely the credit profile of both the companies are expected to change, and that can obviously provide us the beneficial interest rate and the beneficial terms as far as the funding is concerned. And hopefully that can also have an impact on the pricing of the new orders what we bid.

**Moderator:** Thank you. The next question is from the liner Barani Vijaykumar from Spark Capital. Please go ahead.

**Barani Vijaykumar:** Sir, can you help me understand the post-merger structure of Sadbhav? So would the Ham projects and the few toll projects like Rohtak Hisar and Maharashtra Border Checkpost, would all those projects to be part of Sadbhav Engineering entity?

**Varun Mehta:** Yes, it is part of Sadbhav Engineering entity.

- Barani Vijaykumar:** Understood. And so once the monies from the Indian infra deal comes through. So, after allocating money for the units that we will get, probably about Rs. 800 crores of cash would go into the equity for the HAM projects, right?
- Varun Mehta:** The balance equity requirement in this Ham project is somewhere around Rs. 410 crores. That will be met obviously from the internal approvals and also from some part of the stake sale proceeds.
- Barani Vijaykumar:** Right. So, the standalone SIPL debt is still about Rs. 1,600 crores. So, post the merger the standalone debt at SEP level would also add to the Sadbhav's numbers?
- Varun Mehta:** See, post the stake sale the plan is that we would repay almost the entire debt at the SIPL standalone level. So, there is no way that the SIPL standalone debt will be added to SEL standalone debt. And also, the plan is to reduce the SEL standalone debt also with the stake sale money because there will be a repayment of the loan, which is given by Sadbhav Engineering to Sadbhav Infra, so some part of the money will also get repaid. And with that in turn SEL will repay the external party loans. So, in a way, there is no way that the SIPL will be having any debt on a standalone level, so that will be completely wiped off basically once the deal is done.
- Barani Vijaykumar:** But can you explain how it will happen? Because even if you pay around Rs. 300 crores, Rs. 400 crores from the deal to the SIPL standalone, the remaining debt from SIPL would still have to be paid. How are you going to do that?
- Varun Mehta:** So, if you see right now, the SIPL standalone has an external debt of Rs. 800 crores, and plus there is debt from SEL of around Rs. 800 crores. So, this external debt will get completely paid off from this deal. And is SEL debt, so right now we are planning to pay off Rs. 650 crores from the stake sales proceeds to SEL, so there will be a debt on SIPL books of Rs. 150 crores from SEL, which will be after the merger which will get knocked off, because then there is no separate entity which will be there. And so because of that we are seeing there won't be any debt after the stake sale on the SIPL standalone once the merger is done.
- Barani Vijaykumar:** So, the revenue potential would be the Rs. 500-odd crores of O&M order book that we have from the SIPL order book going forward from a Sadbhav's point of view after the merger, right?
- Varun Mehta:** Yes, see after the merger if you see, there will be the three revenue streams what we have right now at the SIPL level, so that will continue. So, the first is the maintenance of the operational assets. Because for these nine assets also we have signed the maintenance agreement with the trust, so we would be getting the maintenance revenue at the SEL level. The second thing is the maintenance of the HAM assets during the under construction period, so that will continue. And the third thing is that dividend from the units, because if you see that Rs. 650 crores is the value of the units and typically we are expecting that a dividend should be somewhere in the range of around 11% to 12%, so that will contribute around Rs. 70 crores, Rs. 72 crores of the revenue to

SEL. So, this three revenue streams which are right now there post the stake sale the dividends which will come in, so that will continue at the SEL level also.

**Barani Vijaykumar:** No problem. So, a few more clarity on cash, I would take it from you offline.

**Nitin Patel:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** Varun, what would be the standalone debt at Sadbhav Engineering Level?

**Varun Mehta:** SEL debt is around Rs. 1,550 crores.

**Vibhor Singhal:** So same as last quarters?

**Varun Mehta:** Yes.

**Vibhor Singhal:** Fair enough. And also, in the HAM projects you mentioned that we are required to put in only Rs. 400 crores more of equity. So, considering that the total equity requirement was around Rs. 1,200 crores, that means we have already invested around Rs. 800 crores of equity in the 11 projects that we have right now?

**Varun Mehta:** See, basically the total equity requirement has reduced because of obviously the Bhimasar project is not part of the HAM portfolio right now. And Vizag project is not part of the portfolio, so that has been removed. And so because of that the equity requirement has come down.

**Vibhor Singhal:** But at the same time, we would have added Gadag - Honnali project, so doesn't that kind of partly compensate for the change in equity? So what is the total equity requirement now for the 11 projects, excluding Bhimasar and Vizag, and including Gadag - Honnali?

**Varun Mehta:** So if you see, including Gadag - Honnali, so equity requirement basically for the total project is somewhere around Rs. 1,100 crores. And we actually consider that as part of the SEL and so right now I was saying that what is the equity....

**Vibhor Singhal:** Okay. So Gadag – Honnali is in the part of SEL, so the remaining 10 projects the equity requirement would be around Rs. 1,000 crores, out of which Rs. 400 crores lose we have to invest, right?

**Varun Mehta:** Yes. That's true.

**Vibhor Singhal:** Okay. Fair enough. And also, do we expect this standalone debt, as you mentioned, of course, I mean, keeping the deal aside in terms of working capital at the Sadbhav Engineering Level do

we see any further worsening that might lead to increase of this Rs. 1,500 crores of debt or you expect that to be stable at this number by the end of this year also?

**Nitin Patel:** See, debts are well within the range obviously because of the certain initial, because post the IL&FS there are the certain challenges, some of the commitments what we are having that has not been fulfilled by the agencies who have provided the facilities to us. Now, it has been mitigated, now we are do away. So, the things have been lined up in a better manner now. So, that is way how we are looking after. So, we don't see any other further challenges. And apart from that, if you see the nine SPV itself, we are sitting on a cash balance, obviously, almost more than Rs. 170 crores, Rs. 180 crores plus actually, that is still also available. So, that may also keep on coming within the system as per the terms of the financing documents.

**Moderator:** Thank you. Next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.

**Parvez Akhtar:** A couple of questions from my side. For this Rs. 410 crores equity that we need to infuse in future, how much do we need? And I mean, if you could give a year wise schedule as in what is required in H2 FY20, FY21 and FY22?

**Varun Mehta:** Yes, so in H2 FY20 the amount is somewhere around Rs. 125 crores. And in FY21 the number is somewhere around Rs. 220 crores, and the balance in FY22.

**Parvez Akhtar:** What is the loan from SIPL to SEL that we have given?

**Varun Mehta:** From SEL to SIPL, right?

**Parvez Akhtar:** Sorry, yes, SEL to SIPL.

**Varun Mehta:** So, the loan outstanding is around Rs. 800 crores as of now.

**Parvez Akhtar:** There's been quite a sharp jump, I think, Q-o-Q in that number, I think last quarter this number was what about Rs. 650-odd crores or so?

**Varun Mehta:** In the last quarter also if you see, we had mentioned that there has been some increase in the loan from SEL to SIPL. And the primary reason is for the equity infusion in the under construction HAM projects. And so that is the main reason. Because obviously we had done a tie up for this particular equity requirement, but I think because of the market scenario that particular lender is not in a position to provide the further disbursements. And so, because of that the SEL has to provide the support temporarily for that.

**Parvez Akhtar:** So once we get all the approvals in SIPL, how soon can we get the cash proceeds?

**Varun Mehta:** So I think we have mentioned the process in the opening remark, basically the process is like we are in the final stage of getting the lenders' approval from the balance 19% on the lenders. And

post that there will be a Board of Directors meeting of their trust and the unit holders' meeting of the trust. So I think once the unit holders' meeting is done so then immediately the funds will be received by SIPL. And so anyways basically there is not much process after that. So, I think this is the broad process which is there.

**Parvez Akhtar:** Okay and last question, what is the CAPEX that we have incurred till now? And how much do we expect for the full year?

**Varun Mehta:** See, in Sadbhav Engineering, total put together as of now we have done almost around Rs. 30 crores, Rs. 32 crores of the CAPEX. And another new CAPEX has been lined up to the tune of around again the same amount, around Rs. 30 crores to Rs. 35 crores.

**Moderator:** Thank you. Next question is from the line of Tina Virmani from Kotak Securities Please go ahead.

**Tina Virmani:** My question is regarding the increase in the receivables during one 1H FY20. So, is there any specific project which is contributing to increase in receivables or it is generally on account of slowdown in execution which has resulted in this increase?

**Nitin Patel:** See, there are three important components, one is the price escalation of the HAM projects, because the HAM projects as and when we are executing, so basically all the 60% component on the unpaid price escalation, that is almost to the tune of around Rs. 260 crores to Rs. 270 crores is a price escalation amount so far the company has incurred. Number one. Second thing, that GST component of the HAM, out of the total eight under construction projects, seven we are eligible to get the compensation from the NHAI, and the outstanding amount is the GST is almost Rs. 110 crores, which has been certified by the independent consultants and respect to project authorities for the release of the same. So, this we are expecting it will come soon. And also, some of the change in scope of the work almost around Rs. 200-odd crores we have executed in some of the HAM projects. So, that also is getting released in a peaceful manner actually So, as and when we will get, so these are the basically three components other than the normal work in progress which is there which has resulted into the same.

**Tina Virmani:** So, all three components, price escalation, GST and change in scope, they all will get released over a period of time. So, this should come...

**Nitin Patel:** Yes, all are certified. Actually, it has been certified by the independent engineers also and even the respective project authorities. But ultimately it has its own sequence of the release of the funds, so that is why it is getting. So once we get, say for example, change in scope and GST, so it will come down again then.

**Tina Virmani:** Okay. And what is the status Maharashtra border check post project, how many check posts are operational now?

**Nitin Patel:** It is the same, 18 check post are operational, another five all the approval is lying with the authority because of the election and now the extended finalization of the government, it has not yet finalized at the government end. But we are expecting once the government is there in place, or if this continues this Governor's rule, President rule, then we have to approach to the authority in a completely different manner so that we can get it cleared actually. So, that's why it is being a little bit delayed.

**Tina Virmani:** Okay. And any update on Rhotak - Panipat and Rhotak - Hisar project in terms of the process that you had initiated with NHAI?

**Nitin Patel:** Rohtak - Panipat we have already issued the cure period notice to the authority, so that is already in the place. That is an alternate route and the additional toll plaza has been constructed by authority in the different areas actually, even in the alternate route which is shorter than our project there is no toll plaza at all. So, it is a clear event of default of the authority. So, that has been notified now and a cure period of 90 days as per terms of the concession period is given. So, once we get the update from authority then we will be able to take it forward, and we will update basically everybody in that manner.

**Tina Virmani:** Okay. And lastly, is there any change in the interest rates average borrowing cost for the company, because the interest expense during the quarter seem to have come down. So any specific reason for the same or is it generally in line with the execution trend or lower borrowings?

**Varun Mehta:** See, there are like two reasons for this. First thing is, very recently the bidding activity is not happening much. And so because of that the time guarantee commission and those related costs are not getting booked in the books. So, that is first. And the second thing if you see, there has been an incremental loan which is given by SEL to SIPL during first up and during this quarter also. And so because of that the finance cost, so it is net of finance cost, and because of that the net finance cost has reduced to a large extent.

**Moderator:** Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

**Amber Singhania:** Just a couple of questions from my side. If you can give some breakup of the receivables in terms of how much is due from in-house projects? What is the mobilization advances, retention money and how much money is stuck on arbitration which we have considered on this receivables, which are part of the receivables?

**Nitin Patel:** Offhand it is not there, but largely these three items as I have mentioned, which is pertaining to these HAM projects, the GST of Rs. 110 crores, almost around Rs. 270 crores worth of the price escalation. And again, almost Rs. 200-odd crores of the change in scope work which has been executed, these three are there. Apart from that, related to the arbitration proceeds, only the Rhotak - Panipat that has basically pertaining to the SEL portion that has been considered as of

now. So rest other things basically we have not yet considered here actually in this. But complete breakup as of now is not available in hand. So, if required we can provide you separately with a complete detail.

**Amber Singhania:** No, problem. And on SIPI side, including all receivables it is Rs. 800 crores of loans advances, including the working loan, current loans as well as long term loans, right?

**Varun Mehta:** Yes, basically SEL gives short term loan to SIPL, so this short-term loan is in the nature of Rs. 800 crores.

**Amber Singhania:** And lastly, if you can just give some light on the guidance for FY21. Because FY20 we can understand because all these things we have trimmed down our guidance to 3% to 4% last quarter as such. Now, given the kind of pipeline which we are seeing from NHAI, plus the current order book, definitely we are seeing irrigation and mining not moving much, so primary transport will contribute. What kind of violence you think will be reasonable for FY21 if you can share some light on that?

**Nitin Patel:** First of all, let us see how the bidding activity happens in the month of December particularly. So, if everything is bunching out in the month of March, then again basically what will happen, it is a same kind of scenario which is there in the year 2018 actually. So, a large number of bids came, actually then everybody has ramped up their order book and then the things have changed in the different manner. And we also have to see that what is the preparedness of all the other players in the market for taking the new business actually. So that everything we are to work out. So, currently what we are seeing that the new orders basically what we are targeting within the vicinity of Rs. 3,000 crores to Rs. 3,500 crores or Rs. 4,000 crores actually this year, so largely we are of the view we should get at least around, say if we cross that numbers then we should get at least around 15% jump in FY21, considering the new orders which is coming into place.

**Amber Singhania:** Okay lastly sir, now because we have seen very, very muted ordering from NHAI and other parts in the entire year. How are you seeing the competitive intensity for the coming bidding looking like as such? Are people desperate to get the orders and bids are getting undercut, what is the sense you are getting from the overall competitive intensity?

**Nitin Patel:** EPC definitely there will be a competition, and we are seeing the range, the projects are ranging between Rs. 300 crores to almost Rs. 800 crores there will be a stiff competition. Above that, obviously, the competitive intensity is little, but obviously there will be some competition. HAM, we don't see much competition, there will be hardly any few bidders in the HAM projects.

**Moderator:** Thank you. The next question is from the line of Jiten Rushi from BOB Capital Markets. Please go ahead

- Jiten Rushi:** Sir, just wanted to know what is the outstanding loans advances given to Rhotak - Panipat and Rhotak - Hisar from SIPL, excluding the initial equity component?
- Varun Mehta:** So you want the short-term loan which has been given by SIPL to SEL?
- Jiten Rushi:** Yes, to Rhotak - Panipat, excluding the initial equity. So basically sub-debt and the sponsor loan.
- Varun Mehta:** See, for Rhotak - Panipat the number is Rs. 243 crores. For Rhotak - Hisar it is Rs. 183 crores.
- Jiten Rushi:** And any more we are planning to invest as a sponsor loan this year?
- Varun Mehta:** Yes. So, I think if you see typically the cash flows in both these SPVs are put together somewhere around Rs. 60 crores are the cash losses which we are suffering on a yearly basis. Obviously, till that time there is some resolution which will come in from NHAI, till that point of time we will keep on supporting the SPV.
- Jiten Rushi:** So basically 426 is outstanding and you can expect Rs. 60 crores more this year?
- Varun Mehta:** Yes, this is outstanding as on September 2019. So, for the balance six months it would be Rs. 30 crores.
- Jiten Rushi:** And when are the proceeds for the stake sale we are expecting by December or probably it can go to Jan or Feb, can you just highlight on that, cash proceeds?
- Nitin Patel:** See, as per the terms of the SPA, once we complete the balance CP as we are discussed in the call actually, so then there will not be much time. We are expecting that within at least maximum within two to three weeks we will get the complete proceed in our account.
- Jiten Rushi:** So, we can expect that to come by March?
- Nitin Patel:** No, I think we are within a couple of weeks we will be able to complete the balance lenders approval. So largely, I think by end of the second or the end of the third week of the December we should basically get the complete the proceeds.
- Jiten Rushi:** And sir just, I am asking on the order inflow which you are talking about. So any expectation this year in terms of order inflow, or we are just focusing on to get over with the deal and the appointed dates?
- Nitin Patel:** So, basically at both the companies we would bid at the new orders. So it is not that we are just waiting for the deal to complete, but the focus is there to bid in any segment which we discussed in the opening remarks also.

- Moderator:** Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.
- Ashish Shah:** Sir, just wanted to check where are we in the process of buying out the stakes? Because for the transaction we will have to buy out minority stake in one of our projects from Monte Carlo, and will also have to buy out SEL's stake in Mysore - Bellary. So, in terms of that paperwork and transaction, where are we in that process?
- Varun Mehta:** See, there are minority shoulders in two of the SPVs. So, one is Mysore - Bellary and the second one is Bijapur - Hungund. As far as Mysore - Bellary is concerned, we have got the shares, we have bought the shares from GKC. So right now as we speak, the shares are in the name of SIPL. And as far as Bijapur - Hungund Monte Carlo is concerned, so there is an agreement which has been in the process of signing which we are there with Monte Carlo. But there has been a confirmation receipt from Monte Carlo that they will also sell their stake along with this particular transition.
- Ashish Shah:** Okay. So what I am trying to understand is that is it going to be like a simultaneous transaction or first you will have to close out? Because even Mysore - Bellary the stake actually vests with SEL. So will SIPL will have to first buyout the stake from SEL and then offered the stake to the InvIT or it's a parallel process where it can get simultaneously sold directly to the InvIT?
- Varun Mehta:** See, basically in this the shares will be first transferred from SEL to SIPL, and then SIPL will transfer the shares to the trust. So, this will happen simultaneously. So, it is not that we have to do this process beforehand only, because this can be done simultaneously also. And as far as the Monte Carlo shares are concerned, so this will depend on the data of closing. So, once you will get the shares from Monte Carlo and then SIPL will transfer those shares to the trust.
- Ashish Shah:** Sir, this cannot be any sort of a bottleneck for the transaction, I mean, all of this will get sorted out?
- Varun Mehta:** Yes, because ultimately as far as the SEL shares in Mysore - Bellary are concerned, so anyways there is already a share purchase agreement signed between SEL and SIPL. And so the shares will be transferred at the time of closing. And as far as Monte Carlo is concerned, so we have disclosed that they have agreed to part away with their stake as far as their stake is concerned. And so that will also be sold at a time of when we transfer the stake to the trust.
- Ashish Shah:** And what would be the mobilization advances outstanding in SEL?
- Nitin Patel:** Off hand, I don't know, Ashish, the numbers actually.
- Ashish Shah:** No problem sir, basically what I am trying to understand is that there also seems to be very big jump in your current liability side, when I look at your March balance sheet and your September balance sheet. So at least directionally will that be on account of the mobilization advances or

there could be something else there? Because if I see your total current liabilities and provisions as of March, it was about Rs. 1,074 crores and that's come to about Rs. 1,760-odd crores. So there is a bit of a jump there. So can one attribute that jump to more advances incrementally received or that there could be something else in that?

**Nitin Patel:** No, actually I think the new advance, I think not in place actually. But obviously, we will just check later.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Amber Singhanian for closing comments.

**Amber Singhanian:** Thank you, Steven. On behalf of Asian Market Security, I thank everyone for joining this call. And a special thanks to the management for taking out time sharing their views and also giving us the opportunity to host this call. That is all from my side. Nitin, would you like to add anything as closing remarks?

**Nitin Patel:** So, thank you very much to all the participant and also AMSEC for organizing this call for discussing the numbers. Obviously, as we have discussed that and just we would like to state here that the process of the PE deal closer is almost basically at the far end of the transaction. And in addition to that I would like to put it here that the almost around 1200 employees of all these nine SPVs has been shifted to the agencies decided by the trust. So, that process has already been over actually. So if you take that also into the account, everybody can understand that how basically things have been completed. So once the balance of the lenders approval is there, we will complete the balance of the transaction and as sooner we will be able to complete this whole transaction for both the companies. That is from my end. And again, thank you very much to all. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Asian Market Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.